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TO RUEHC/SECSTATE WASHDC IMMEDIATE 4327
INFO RUEHXX/ARAB ISRAELI COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHBS/USEU BRUSSELS PRIORITY

C O N F I D E N T I A L JERUSALEM 003680

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SIPDIS

NEA FOR FRONT OFFICE; NEA/IPA FOR WILLIAMS/MAHER/WAECHTER;
NSC FOR ABRAMS/DORAN/WATERS; TREASURY FOR NUGENT/ADKINS

E.O. 12958: DECL: 08/18/2016
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [KWBG](#) [IS](#)
SUBJECT: WEST BANK/GAZA BANKS LIMIT LENDING, DELAY DEFAULTS
AND SEEK AGREEMENT WITH ISRAELIS ON CHECK CLEARING

REF: A. JERUSALEM 2404

[1](#)B. TEL AVIV 2986

Classified By: Acting Principal Officer Thomas Duffy, Reasons 1.4 (b) and (d).

[1](#)1. (SBU) Summary: In response to mounting Palestinian personal debt due to the non-payment of PA salaries, banks operating in the West Bank and Gaza Strip have essentially ceased consumer lending. Commercial lending continues, but at steadily declining levels. Some of the banks have postponed classifying delinquent loans until the end of the year as a means of postponing a potential liquidity crisis. In the absence of a permanent agreement with Israel banks on shekel-denominated check clearing and other correspondent services, Palestinian banks have found it increasingly difficult to accept post-dated checks and issue letters of credit beyond 30-days validity. Security remains a concern, and the banks' inability to purchase weapons legally has left most bank guards unarmed. End Summary.

Banks Restricting Credit

[1](#)2. (C) Senior representatives of Palestinian and regional banks expressed their concerns August 16 to Econoffs and USAIDoffs over building pressure on the banks due to continued non-payment of Palestinian Authority (PA) employee salaries, the associated downturn in an already weakened Palestinian economy, and the resulting rise in personal debt in the West Bank and Gaza. The bankers advised that they are no longer extending personal loans to PA employees and have essentially suspended consumer lending. Commercial lending continues on an increasingly limited scale as economic activity declines. The bankers said that they feel obliged to continue assisting some of their long-term customers. As a measure of the depth of the crisis, Commercial Bank of Palestine (CBP) CEO Suheil Gedeon said that CBP was reporting defaults on mortgage payments for the first time. Gedeon also advised that CBP had attempted to call in some of its non-performing loans earlier on August 16 but suspended its efforts after being immediately besieged by customers accusing the bank of being unsympathetic to families needing extra funds in preparation for school openings and Ramadan.

Liquidity Problems Postponed

13. (C) Bank exposure varies somewhat, according to the bankers. HSBC Deputy Regional Manager Hussein Habbab said that HSBC was less exposed due to having fewer PA employee customers. The Bank of Palestine remains more vulnerable because of its much larger PA employee client base. Banks under Palestine Monetary Authority (PMA) supervision only have postponed classifying non-performing loans until the end of the year. Bank of Jordan Regional Manager Susan Khoury explained that PMA regulations allow for a one-time postponement of the requirement that 20 percent of a loan's value be set aside after three months of non-payment. In doing so, banks are postponing possible liquidity problems until later in the year. Banks subject to Central Bank of Jordan's more stringent provisioning requirements are facing a more serious threat of insolvency.

14. (C) None of the banks, however, claimed to have liquidity problem and asserted that they are not restricting access to deposits. Bank of Palestine (BOP) Regional Manager Hani Naser, however, reported problems getting shekels (NIS) to BOP branches in Gaza. Cairo Amman Bank Regional Manager Izzidin Abu Salameh added that due to the shortage of electricity Cairo Amman branches in Gaza are open only four hours a day and ATMs are turned off at 1400 hours. CBP's Gedeon emphasized that although a liquidity crisis was not imminent, in the absence of income from fees, loans and other services, banks continue to assess individually the commercial viability of maintaining normal operations. He estimated that business at CBP has dropped by about 70 percent.

Unarmed Guards

15. (C) Security remains a constant concern. Although no serious security incidents have occurred in recent weeks, the bankers said that more needs to be done to protect banks. They complained that bank security personnel are usually unarmed because the importation of weapons and the issuance of gun permits is severely restricted by the GOI and banks refuse to purchase weapons illegally for their security guards. The GOI, in the past, has confiscated the weapons of bank security personnel, according to the bankers.

Still No Agreement with Israeli Banks

16. (C) The bankers stated that the absence of a permanent agreement with Israeli banks on shekel-denominated check clearing and other correspondent services continued to hurt their business. Cairo Amman Bank's Abu Salameh said that he and other bankers had attended a meeting in July with Israeli banks and the Central Bank of Israel after which he concluded that everyone was interested in reaching an agreement and it would not take long to do so. Although grateful for the 30-day extension of the August 15 deadline, the bankers said the lack of certainty over their future relationship with Israeli banks prohibited them from issuing letters of credit or accepting post-dated check valid beyond September 15. They worried that, unless the problem is resolved soon, they may have to deal with repeated 30-day extensions for the next several months.

DUFFY